U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

BUREAU OF ECONOMIC ANALYSIS/ ECONOMICS AND STATISTICS ADMINISTRATION

Some Improvements are Needed in the Handling of Reimbursable Agreements and the Sale of Products and Services

Final Audit Report No. FSD-16824-5-0001/March 2005

PUBLIC RELEASE

Financial Statements and Accountability Division

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MAR 31 2005

MEMORANDUM FOR: Kathleen B. Cooper
Under Secretary for Economic Affairs

FROM: Johnnie E. Frazier

SUBJECT: *Some Improvements are Necessary in the Handling of Reimbursable Agreements and the Sales of Products and Services by the Bureau of Economic Analysis and the Economics and Statistics Administration*
Final Audit Report No. FSD-16824-5-0001

This is our final report on the reimbursable activities and sales of products and services by the Bureau of Economic Analysis (BEA) and the Economics and Statistics Administration (ESA). During this audit, we (1) identified the BEA and ESA revenue generating activities; (2) assessed whether the activities performed by the two entities are consistent with the missions of the two entities; and (3) reviewed the effectiveness of controls in place to ensure compliance with applicable laws and regulations.

In fiscal year (FY) 2004, BEA and ESA were reimbursed approximately $1.6 million for services provided to other government agencies through reimbursable agreements. In addition, ESA earned about $1.5 million by providing access to business, economic, and international trade information through the Internet under a fee-funded activity called STAT-USA. BEA received about $182,000 for the sale of Regional Input-Output Modeling System data (RIMS): these data are useful to analyze the impact of programs and projects on a regional economy.

Our audit showed that the reimbursable activity and sales of products and services are compatible with their missions, but both BEA and ESA need to strengthen their management controls. Specifically, BEA and ESA need to improve the review and documentation of overhead rates used in charging recipients for services covered by reimbursable agreements. Also, BEA needs to base reimbursable billings on actual costs and to strengthen the process for assessing indirect costs to be recovered through the sale of RIMS products. STAT-USA needs to enhance its process for reviewing and revising fees.

In responding to the draft report, the Under Secretary for Economic Affairs noted that the findings and recommendations contained in the draft report were helpful and that many of the suggested actions have already been taken. We are encouraged by actions that have been taken and planned. Where appropriate, we have modified the report to reflect the actions taken by ESA and BEA. The complete response is attached to the report as Appendix I.

In accordance with the Department Administrative Order 213-5, please provide us with your action plan addressing the recommendations for our review and concurrence within 60 days of this memorandum. If you want to discuss the content of this report and action plan, please call me at (202) 482-4661, or Thomas McCaughey, Director, Financial Statements and Accountability Division, at (202) 482-0025. We appreciate the cooperation and courtesies your staff extended to us during our review.

INTRODUCTION

The Economics and Statistics Administration (ESA) collects demographic and economic data that provide the President, Congress, local communities, and businesses with the information they need to make sound decisions. ESA is comprised of ESA headquarters in Washington D.C., the Bureau of Economic Analysis (BEA), and the Bureau of the Census. This audit relates to the reimbursable activities and sales of products and services by BEA and ESA headquarters (ESA).

> **ECONOMICS AND STATISTICS ADMINISTRATION**
> **Mission Statement**
>
> Help maintain a sound federal statistical system that monitors and measures the United States' rapidly changing economic and social arrangements; improve understanding of key forces at work in the economy and the opportunities they create for improving the well-being of Americans; develop new ways to disseminate the information using the most advanced technologies; support the information and analytic needs of the Commerce Department, the Executive branch, and Congress.

ESA headquarters, comprised of the Office of the Under Secretary, the Chief Economist, and STAT-USA[1], is responsible for (1) providing executive direction, management, financial analysis and administrative support to all ESA agencies, economic policy analysis, and data dissemination services; and (2) evaluating current economic conditions. BEA produces and disseminates statistics, such as the estimate of gross domestic product (GDP), to provide a comprehensive, up-to-date picture of the U.S. economy. In FY 2004, ESA earned $1.1 million and BEA earned $500,000—a total of $1.6 million— from reimbursable services provided to other government agencies.

In May 2004, the Department of Commerce's Chief Financial Officer and Assistant Secretary for Administration issued the *Interim Interagency and Other Special Agreements Handbook*. It provides guidance for the use, management, and oversight of interagency and other special agreements. The handbook was prepared in response to an Office of Inspector General (OIG) report on *Interagency and Other Special Agreements Require Better Management and Oversight* (Inspection Report No. 10418, September 1998).

ESA operates STAT-USA, a fee-funded activity, that allows customers to obtain Internet access to business, economic, and trade statistics on a subscription basis.[2] For FY 2004,

[1] STAT-USA is a revolving fund that provides the public with access to business, economic, and international trade information on the Internet for a fee.

[2] Public Law 103-317, 108 Stat. 1744 (August 26, 1994) provided that "the Secretary of Commerce is authorized to disseminate economic and statistical data products ... and ... charge fees necessary to recover the full costs incurred in their production."

STAT-USA incurred a loss of about $100,000 while generating $1.5 million in sales. BEA sales of CD-ROMS containing Regional Input-Output Modeling System (RIMS) multipliers generated approximately $182,000 in revenue during FY 2004.[3]

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives for this audit included: (1) identifying the reimbursable services and products that BEA and ESA provide; and (2) assessing whether these activities are consistent with the goals and objectives of the entities. We also sought to (1) observe whether applicable laws and regulations are being followed; and (2) determine whether appropriate management controls are in place and operating effectively. To pursue these audit objectives, we reviewed pertinent federal guidance and legislation,[4] interviewed ESA and BEA officials, identified and documented management controls, and performed tests of controls. We did not test the reliability of computer-generated data, because such data were not essential to our audit objectives.

We conducted our fieldwork from May 2004 to December 2004 at BEA and ESA headquarters in Washington D.C. The audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

We found that BEA and ESA need to strengthen management controls over reimbursable agreements with government agencies and sales of products and services to the public. Specifically, we found:

I. Improvements needed in BEA and ESA management controls over reimbursable agreements

During FY 2004, ESA and BEA had interagency agreements with other government agencies and were reimbursed for the services they provided. Interagency and other formal agreements are used by parties to share information, provide services, or coordinate programs. Reimbursable agreements are a type of interagency agreement in which one agency provides goods or services to another on a cost reimbursable basis. Both BEA and ESA need to improve the review and documentation of the overhead rates applied in billing recipients of their services. BEA needs to ensure billings are based on actual work performed and use established overhead rates. Also, BEA should obtain appropriate authorizations prior to performing work covered by reimbursable agreements.

[3] RIMS multipliers, which account for inter-industry relationships within regions are used for conducting analyses of the impacts of programs and projects on a regional economy.

[4] Chief Financial Officers Act; Office of Management and Budget Circular A-123, *Management Accountability and Control;* 15 United States Code (U.S.C.) 1525-1527, OMB Circular A-130, *Management of Federal Information Resources*; OMB Circular A-25, *User Charges*; and the *Department of Commerce Accounting and Principles and Standards Handbook.*

A. Improvements are needed in the review and documentation of overhead rates used to bill for reimbursable services.

To recover the full costs of services provided to other federal agencies through reimbursable agreements, BEA and ESA should charge customers for the direct costs incurred on a project as well as a portion of indirect costs (overhead) that support multiple projects.[5] During FY 2004, reimbursable agreements with other government agencies amounted to $500,000 in revenue for BEA and $1.1 million in revenue for ESA.

The Department of Commerce's *Accounting Principles and Standards Handbook* requires operating units to review and approve charges to recover the full cost of providing the products/services. Office of Management and Budget (OMB) Circular A-123, which applies to management accountability and control, states that documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Regular reviews of overhead rates are necessary to ensure that the costs charged to recipients of services are appropriate. However, we found that neither entity had revised their overhead rates for the past 3 years. Moreover, neither ESA nor BEA had supporting documentation for the rates they had used for these 3 years.

ESA officials told us the overhead rate was established more than 3 years ago by the then Chief Financial Officer. When setting the charges for services under a specific reimbursable agreement in FY 2004, ESA used a spreadsheet with this 3 year old rate. Since the rate had not recently been updated and documentation supporting the basis for the rate currently in use was not available, there was limited confidence that ESA's overhead rate was appropriate. Subsequently, ESA (1) reviewed, documented and recalculated its overhead rate with the latest available data and (2) developed procedures for reviewing and updating overhead rates in the future. ESA's analysis determined that overhead rate should be 29.5 percent, up from the rate of 25 percent that had been in use.

Similarly, it had also been more than 3 years since BEA adjusted its overhead rate. Documentation was not available to support the rate used in FY 2004 as appropriate or reasonable. We were told that an increase in space during FY 2004 would likely impact overhead rates. BEA subsequently performed an analysis of its overhead costs for FY 2003 and FY 2004 and determined that the rate should be 30 percent, significantly higher than the 18 percent it had used during FY 2004. The use of overhead rates that are too low results in the collection of less than full costs. In such instances, bureau resources are being used to fund the activities of other agencies. We were told that BEA is using the revised overhead rate for new agreements entered into during FY 2005.

[5] Overhead represents indirect costs or expenses of an agency, which cannot be charged as belonging exclusively to any particular project or part of the project or service being performed such as rent, electricity, administrative support.

B. BEA billings should be based on work performed and established overhead rates

Appropriate overhead rates should be applied in billing government agencies for activities performed through reimbursable agreements. The Department of Commerce's *Accounting Principles and Standards Handbook* requires that cost accumulation shall be consistent and should facilitate billing.

During our review of BEA's reimbursable agreements, we found an instance in which different overhead rates (18 percent and 25 percent) had been charged to a recipient of services under a $250,000 reimbursable agreement. When asked why two different overhead rates were applied to the same reimbursable agreement, we were told that this had been done to ensure that the amount billed the recipient matched the amount stated in the agreement. Thus, the amount billed did not match the actual costs of the services performed. Billings should be based on actual incurred costs and not the estimated charges identified in the reimbursable agreement.

BEA has acknowledged that customers must be billed for the actual costs incurred for work performed, not the estimated charges in the reimbursable agreement. For future billings, customers are invoiced for indirect costs that result from the annual update of the overhead rate.

C. BEA should obtain appropriate authorizations prior to initiating work

Our review of all of BEA's six reimbursable agreements found that for one of its agreements (an agreement for $250,000), appropriate signatures had not been obtained to authorize the start of work. Failure to obtain appropriate authorization prior to initiating performance puts the bureau at risk of having to cover the costs of services performed.

BEA acknowledges that when work begins before the reimbursable agreement is signed, it exposes itself to risk of having to cover the cost of services performed. Subsequently, BEA has received a commitment by the agency to fund 50 percent of the work and promised that agreement to fund the entire amount will be obtained before 50 percent of the work is completed.

D. Recommendations

We recommend that the Under Secretary for Economic Affairs ensure that the following actions are taken:

(1) BEA and ESA develop procedures to establish and document the basis for the overhead rates applied, regularly review the rates, and when necessary, modify overhead rates used to bill customers and;
(2) BEA bases billings on work performed;
(3) BEA obtains the appropriate authorization prior to performing wok on behalf of other government agencies.

E. ESA/BEA Response

In responding to the draft report, the Under Secretary for Economic Affairs noted that many corrective actions have already been taken to address our recommendations. Both BEA and ESA have (1) reviewed and recalculated their overhead rates for FY 2005 and (2) have established procedures on the review and documentation of overhead rates used to charge customers in ESA reimbursable agreements. For both BEA and ESA, the procedures call for the review of the methodologies and calculations of indirect cost rates at the beginning of FY 2006 and the beginning of each fiscal year thereafter.

BEA acknowledged that the process followed for one reimbursable agreement was not consistent with full cost recovery and that for future billings, customers are to be invoiced for indirect costs based on the rate that results from the annual update of the overhead rate methodology. Also, BEA acknowledges that beginning work prior to a signed reimbursable agreement exposes the agency to the risk of having to cover the cost of services performed. Subsequently, BEA has received a commitment by the customer to fund 50 percent of the work and promised that agreement to fund the entire amount will be obtained before 50 percent of the work is completed.

F. OIG Comments

We are encouraged by the prompt corrective actions that BEA and ESA have taken on the recommendations. We believe that the corrective actions taken are consistent with addressing the recommendations on (1) developing procedures to establish and document the basis for the overhead rates applied and (2) basing billings on work performed. While we are encouraged by BEA's efforts to mitigate risks associated with the one reimbursable agreement identified as being initiated prior to obtaining authorization, we await the action plan to clarify how such risks will be mitigated in the future.

II. Improvements needed in fee-funded programs operated by BEA and ESA.

In FY 2004, STAT-USA earned ESA approximately $1.5 million in revenue by providing access to business, economic, and trade statistics through the Internet. BEA made approximately $182,000 in RIMS CD-ROM sales during FY 2004. Our audit identified the following improvements needed in fee-funded programs operated by BEA and ESA:

A. BEA should improve its method of calculating user charges

BEA charges fees for Regional Input-Output Measurement System (RIMS) products that it sells to the public. The sale of RIMS products is subject to OMB Circular A-25 *User Charges* which requires that full cost be determined or estimated from the best available information and that bureaus maintain readily accessible records of the information used to establish charges and the specific methods used to determine them.

To calculate the charge for RIMS products, BEA includes labor costs (e.g., RIMS staff hourly salaries, leave and benefits) and overhead costs (division management, general administration, and general space). For example, BEA had initially calculated that the estimated cost to produce a RIMS CD-ROM for FY 2005 was $283, $160 in direct labor costs and $123 for overhead. However, it was not clear how the overhead rate of 43 percent, representing $123 of the $283 in total costs, was determined; whether it remained current or if it was reasonable.

BEA recognized that there was an inconsistency in the application of the overhead rate for RIMS products. BEA subsequently recalculated the price of RIMS using a methodology consistent with BEA's reimbursable cost estimating. This analysis determined that the cost to produce a RIMS CD-ROM would be $275 in FY 2005.

B. STAT-USA should strengthen its process for reviewing and setting prices

STAT-USA assembles data from other government sources, prepares data for distribution to the public, operates distribution services, and designs information products. STAT-USA has no appropriation and must recover all costs including labor, computers, supplies, rent, utilities, and overhead. For FY 2004, STAT-USA incurred a loss of about $100,000 while generating $1.5 million in sales.

The Department of Commerce's *Accounting Principles and Standards Handbook*, Chapter 11, Section 4.02, states that records must be maintained of the information used to establish charges and specific methods to determine them. Bureaus must document the basis for establishing rates, the method of recording and controlling variances between costs and billings, and periodic evaluation of material variances and adjustments. OMB Circular A-123, *Management Accountability and Control*, states that documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

STAT-USA developed a policy paper, "STAT-USA Policy on Database Pricing," in December 2001, which explains that it computes Internet service charges using a formula that includes the use of computer resources, estimated cost of customer support, amount of data retrieved, and the administrative costs to establish and maintain the service and customer accounts. The policy paper states that copies of the records for the actual calculations of user charges can be obtained from STAT-USA. However, when we requested STAT-USA to provide us with documentation supporting the prices it charges to customers of its services, STAT-USA was not able to provide the supporting documentation for this price study. In addition, at the beginning of our audit, STAT-USA management was not clear about the guidelines it was required to follow in establishing prices for its products.

Since the establishment of STAT-USA, there have been several changes in management and institutional knowledge about the adopted pricing practices is limited. The Director of STAT-USA noted that our audit has identified the need for documentation relating to the policies and practices of the service for future managers. He said he has begun building a file to maintain that information and that STAT-USA needs more detailed and specific reviews of the prices it charges in the future.

The response to the draft report noted that on March 11, 2005, STAT-USA initiated a comprehensive pricing review targeted to develop written documentation about product pricing in July 2005.

C. STAT-USA should ensure the appropriate treatment of advance payments

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources,* states that when services are rendered continuously over time or the right to use an asset extends continuously over time, the revenue should be recognized in proportion to the passage of time or use of the asset. The Department of Commerce's *Accounting Principles and Standards Handbook,* Chapter 11, Section 3, states that when services are provided to the public or another government entity, revenue should be recognized when the services are performed. The handbook also says when advance fees or payments are received; revenue should not be recognized until costs are incurred from providing the goods and services.

ESA currently recognizes revenue when payments are received even though the payment is for access to information for a period of time. For FY 2004, STAT-USA generated $1.5 million in sales. We were informed that advance payments are not recognized as unearned revenue when collected and that there was no adjustment made at year-end to account for the revenue not yet earned (unearned revenue). STAT-USA officials told us that at one time, ESA recognized unearned revenue for advance payments. However, a determination was made by STAT-USA and the National Institute of Standards and Technology (NIST), its provider of accounting services, to stop that practice of recognizing unearned revenue as a liability a couple of years ago. The determination was made that the cost of the system used to calculate earned and unearned revenue outweighed the benefit of providing a clearer picture of STAT-USA's financial position. The revenue amounts were not considered material to the financial statements of the Department.

The accrual method of accounting recognizes the significance and accountable aspects of financial transactions, events, or allocations as they occur. Proper recognition of the advance payments in quarterly and year-end financial reports would provide management with a more accurate measurement of STAT-USA performance during a given fiscal year and its financial position at the end of a fiscal year. Such information could benefit management in evaluating performance and setting fees. We have been notified that ESA staff are working with NIST to explore the current treatment of advance payments.

D. Recommendations

We recommend the Under Secretary for Economic Affairs ensure that:

(1) BEA improves its process for determining charges for RIMS products.

(2) STAT-USA performs a thorough and detailed review of its pricing and documents the basis for the prices charged to the public.

E. ESA/BEA Response

In responding to the draft report, the Under Secretary for Economic Affairs commented that BEA and ESA have already taken many corrective actions. The response notes that BEA recalculated the price it charges for RIMS products, using a methodology consistent with that used for calculating reimbursable overhead rates. The response also notes that STAT-USA has subsequently begun a comprehensive pricing review that will result in written documentation about product pricing. The plan is to issue a final report on STAT-USA's product pricing in July 2005.

STAT-USA states that the practice of accounting for earned and unearned revenue was discontinued because it was determined that the cost of the system used to calculate earned and unearned revenue using subscription amounts and term dates outweighed the benefits. STAT-USA noted that its provider of accounting services considered that amounts involved were immaterial to Commerce's consolidated financial reports. The STAT-USA Director noted that there might be a benefit to changing accounting methodologies and that staff are working with NIST to explore revising their current accounting methodology in which unearned revenue is not recognized.

F. OIG Comments

We are encouraged by the corrective actions BEA and ESA have taken and planned. We believe that the approach used by BEA to recalculate the price it charges for RIMS products is consistent with our recommendation that BEA improve its process for determining RIMS products. Also, STAT-USA's ongoing comprehensive pricing review is consistent with our recommendation that the fee-funded activity perform a thorough and detailed review of its pricing policy and that it documents the basis for prices charged to the public.

STAT-USA's explanation in the response clarifies why it discontinued the calculation of unearned revenue. While we agree the amounts involved are immaterial to the Department's consolidated financial statements, we continue to feel that understanding the amount of earned versus unearned revenue would benefit management is evaluating performance and setting prices. We encourage ESA staff and NIST to continue working on addressing this issue.

cc: Dr. Steve Landefeld
Director of the Bureau of Economic Analysis

Suzette Kern
Acting Chief Financial Officer, Economics and Statistics Administration and Associate Director for Management and Chief Administrative Office, Bureau of Economic Analysis

Kim White
Associate Under Secretary for Management
Economics and Statistics Administration

ATTACHMENT I

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Economic Affairs
Washington, D.C. 20230

MAR 22 2005

Memorandum for: William F. Bedwell, Jr.
Acting Deputy Assistant Inspector General
for Auditing

From: El Anderson for KBC
Kathleen B. Cooper
Under Secretary for Economic Affairs

Subject: Inspector General Draft Audit: *Some Improvements are Necessary in the Handling of Reimbursable Agreements and the Sales of Products and Services by the Bureau of Economic Analysis (BEA) and the Economics and Statistics Administration (ESA)*

Thank you for the opportunity to review and provide comments to the subject draft audit report. We appreciate the work done by your staff. The findings and recommendations provided in the report are helpful and many of the suggested actions have already been taken. The draft report contains five recommendations. Our comments are provided below.

Recommendation #1: ***BEA and ESA develop procedures to establish and document the basis for the overhead rates applied, regularly review the rates and when necessary, modify overhead rates used to bill customers.***

Procedures have been developed to establish and document how both BEA and ESA apply overhead rates. For BEA, this information was provided to the IG staff prior to the close of the audit work. Our understanding is that the overhead procedures and rates were reviewed, commented upon, and approved by the IG staff, with their comments integrated into the final methodology.

Since the exit conference, ESA has reviewed, documented and recalculated its overhead rates with the latest available data. ESA's methodology is similar to BEA's practice. Written procedures have been established and a copy has been provided to the auditor since the receipt of the draft report.

The documentation for BEA and ESA overhead rates calculation is included as Attachment A.

We consider action complete on this recommendation.

ECONOMICS AND STATISTICS ADMINISTRATION

Recommendation #2: ***BEA base billings on actual and not estimated costs.***

BEA agrees customers must be billed for the actual incurred costs, not the estimated total charge identified in the reimbursable agreement. In one agreement with the International Trade Administration (ITA), BEA charged more than its standard rate of 18% of salaries and benefits for indirect costs in order to ensure the total charges to ITA did not exceed the estimated amount in the signed reimbursable agreement. BEA acknowledges this does not facilitate the goal of full cost recovery. BEA has established a procedure to ensure that for future billings, customers are invoiced for indirect costs based on the rate that results from the annual update of the overhead rate methodology. The documentation of this procedure is included as Attachment A.

We consider action complete on this recommendation.

Recommendation #3: ***BEA should obtain appropriate authorizations prior to initiating work.***

BEA acknowledges that when work begins before the reimbursable agreement is signed it exposes the agency to risk of having to cover the cost of services performed. On one occasion work on an annual, recurring reimbursable project work began before the agreement was signed, though there was informal agreement between the senior management of both parties that the agreement would be signed. Early in the second quarter an e-mail was received stating the agency's intent to fund at least 50% of the work. The agreement to fund the entire amount is being moved through the purchasing agency's approval process and will be received before 50% of the work will be completed.

Recommendation #4: ***BEA improves its process for determining charges for RIMS products.***

The fee for the Regional Input-Output Measurement System (RIMS) and the methods for deriving the fee have been thoroughly documented each year and reviewed in conjunction with the OMB A-25 guidelines. BEA did discover a slight inconsistency in the application of the overhead rate. The total overhead cost was calculated on the salaries with the overhead rate including both benefits and indirect costs. BEA has recalculated the price using a methodology consistent with that used for BEA's reimbursable cost estimating. This slight change to the methodology did not result in a change to the fee BEA charges for the RIMS product. The calculation of the RIMS fee is included as Attachment B.

We consider action complete on this recommendation.

Recommendation #5: ***STAT-USA performs a thorough and detailed review of its pricing and documents the basis for the prices charged to the public.***

The report cites that STAT-USA was unable to provide documentation about how it calculates prices. STAT-USA acknowledges that the process for maintaining institutional knowledge in this area needs improvement. STAT-USA appreciates the need for better documentation and has begun a comprehensive pricing review, which will result in written documentation about product pricing. The project plan for the pricing review is included as Attachment C.

STAT-USA's 2001 price study, which is referenced in the IG report, reviewed pricing policy and user charges. Unfortunately, the supporting documentation for that study was not available for the auditors. Other efforts to review pricing include last year's price evaluation of site license prices for STAT-USA/Internet. In March of 2004, a team of senior staff and accounting personnel initiated a series of meetings to determine a fair and equitable restructuring of the fees charged to site license holders and educational consortia, with increases to be phased in over a period of time. A new fee schedule was created whereby price increases for educational consortia rose gradually to the current level. Minimum and maximum levels of cost were also set. Policy and procedures are now being developed to require this review on a biannual basis.

Finally, though not a recommendation, the auditors found that STAT-USA changing its current method of recognizing revenue to an accrual-based accounting would provide management with a more accurate measurement of STAT-USA's performance during a given fiscal year.

Though the report states that the practice of accounting for earned and unearned revenue was discontinued because it was "difficult and time-consuming," the decision was not based on the complexity of the exercise. Rather the practice was suspended because the cost of the system that was being used at the time outweighed the benefit. In prior years there was a dBase III application that was used to calculate earned and unearned revenue using the subscription amounts and term dates as the fields evaluated by a database program. The work required to run and to reconcile that application violated the Generally Accepted Accounting Principle concept of "reasonable assurance" in the National Institute for Standards and Technology's (NIST) opinion. NIST is the organization's accounting provider. This means that the cost of time NIST accountants spent on this dBase application was not worth the benefits derived, regarding revenue amounts that NIST accountants considered to be immaterial to the DOC consolidated financial reports.

While the STAT-USA Director noted that there might be a benefit to changing accounting methodologies, further investigation is necessary to ensure that there are no negative business impacts. The staff is working with NIST to further explore this issue.

Attachments

cc: Kim White
Associate Under Secretary for Management
Economics and Statistics Administration

J. Steven Landefeld
Director
Bureau of Economic Analysis

Suzette Kern
Chief Financial Officer
Economics and Statistics Administration

Attachment A

UNITED STATES DEPARTMENT OF COMMERCE
Economics and Statistics Administration
Washington, D.C. 20230

Memorandum

Date: 3/10/2005

To: ESA Budget Staff

Cc: Kim White, Associate Under Secretary for Management

From: Suzette Kern, Chief Financial Officer Suzette Kern

RE: Reimbursable Agreement Overhead Rate

The purpose of this memorandum is to formalize the procedures surrounding the calculation and review of the rates used to estimate and charge customers for indirect costs in the reimbursable agreements that ESA is a party to.

Staff from ESA's Office of Finance and Administration have documented the methodology used to calculate the indirect costs and updated the calculation using the latest available data. The budget staff should beginning using this estimate for any new agreements ESA may enter in FY 2005. The methodology should be reviewed and the calculation updated at the beginning of FY 2006 and at the beginning of each fiscal thereafter, or before the first reimbursable agreement of the fiscal year is signed.

Attachments: <u>Documentation for Overhead associated with ESA Reimbursable Agreements</u>

Documentation for Overhead associated with ESA Reimbursable Agreements

Last Update: February 16, 2005

Indirect Cost Factor

According to the Economy Act, which is the authority ESA uses to enter into reimbursable agreements, among other requirements, the agency must recover the full cost of the goods or services it provides. To ensure all costs are covered ESA must charge both direct and indirect costs. Direct costs are the salaries and benefits of those employees directly contributing to the reimbursable effort, as well as any non-personnel costs directly related to the effort. These non-personnel costs may include data, training or travel purchased specifically for the project. However, there are other non-personnel costs related to providing goods and services on a reimbursable-basis that are not as directly related to the project, but are necessary to the effort and therefore must be included to cover all costs. These are sometimes called overhead, and include such goods and services as IT equipment, office supplies, rent and utilities.

Indirect costs are typically applied using a cost factor. This is often a percentage applied to the personnel (salary and benefits) dollars. ESA uses this practice. To develop the indirect cost factor the non-personnel costs for a complete fiscal year are summed and then divided by the total salary and benefit costs to determine the number of cents per personnel dollar needed to supply employees with the basic goods, services, and technologies (or multiplied by 100 a percent that can be applied to the direct salary and benefit costs). This process is completed for the latest two fiscal years, and the results averaged to even out any year to year differences. This process is repeated annually to ensure the indirect cost factors are current.

Benefit Factor for Estimating the Cost of Reimbursable Agreements

In estimating the costs for any reimbursable agreement ESA estimates the direct costs using the actual salaries and estimated employee hours for each employee needed to complete the tasks specified in the agreement, as well as an estimate for the benefits, and any other direct costs for non-personnel expenses as specified above. A

ESA FY 05 Indirect Cost Factor for Reimbursable Agreements
Last Update: February 16, 2005

	FY03 Obligations	FY04 Obligations
Salaries & Benefits	5,852,705	5,601,749
Cash Awards	111,069	104,499
Overtime	9,958	4,584
Lump Sum Leave	55,885	95,989
Buyouts	115,723	59,237
Travel	94,848	130,289
Trans of things	87	108
Space	730,161	539,801
Comm, Util, Rent	45,153	42,453
Printing	14,769	11,669
Other Services	3,413,212	707,752
Training	9,940	22,742
Supplies	160,000	194,470
Equipment	148,533	158,616
Penalty Pay	26	109
ESA overhead allocation	-3,321,136	-277,975
Total Nonpersonnel	1,588,228	1,794,343
Total Nonpersonnel/Total Personnel	27.14%	32.03%
Indirect Cost Factor		***29.58%***

benefits factor, which is the dollar cost of benefits divided by the dollar cost of salaries is used during this exercise. However, when the customer is billed for services the actual benefits that accompany the hours worked by a specific employee are charged. Even though the customer is not charged based on this benefit factor, the factor is verified each year to ensure the cost estimates for services, which are included in the memorandum of understanding, that both parties sign, are as accurate as possible.

The benefit factor is constructed very much like the indirect cost factor. The total benefits for a fiscal year and summed and divided by the sum of the salaries for that year. The result is the number of dollars per salary dollar necessary to pay for employee benefits. This process is completed for the latest two fiscal years, and the results averaged to even out any year to year differences.

ESA Benefit Factor for Estimatung the Cost of Reimbursable Agreements

Last Update: February 16, 2004

	FY 03 Obligations	FY04 Obligations
ESA		
Salaries	4,848,424	4,584,309
Benefits	1,004,280	1,017,441
Benefits/Salaries	20.71%	22.19%
Benefit Factor		***21.45%***

UNITED STATES DEPARTMENT OF COMMERCE
Economic and Statistics Administration
BUREAU OF ECONOMIC ANALYSIS
Washington, D.C. 20230

March 17, 2005

MEMORANDUM TO: Office of Budget and Finance Staff
Administrative Services Division

FROM: C. Brian Grove
Chief, Administrative Services Division

SUBJECT: Reimbursable Agreement Overhead Rate

The purpose of this memorandum is to formalize the procedures surrounding the calculation and review of the rates used to estimate and charge customers for indirect costs in the reimbursable agreements that BEA is a party to.

Staff from BEA's Office of Budget and Finance have documented the methodology used to calculate the indirect costs and updated the calculation using the latest available data. The budget staff should begin using this estimate for any new agreements BEA may enter in FY 2005. The methodology should be reviewed and the calculation updated at the beginning of FY 2006 and at the beginning of each fiscal thereafter, or before the first reimbursable agreement of the fiscal year is signed.

Attachments: Documentation for Overhead associated with BEA Reimbursable Agreements

ECONOMICS AND STATISTICS ADMINISTRATION

Documentation for Overhead associated with BEA Reimbursable Agreements

Last Update: March 14, 2005

Indirect Cost Factor

According to the Economy Act, which is the authority BEA uses to enter into most but not all of its reimbursable agreements, among other requirements, the agency must recover the full cost of the goods or services it provides. To ensure all costs are covered BEA must charge both direct and indirect costs. Direct costs are the salaries and benefits of those employees directly contributing to the reimbursable effort, as well as any non-personnel costs directly related to the effort. These non-personnel costs may include data, training or travel purchased specifically for the project. However, there are other non-personnel costs related to providing goods and services on a reimbursable-basis that are not as directly related to the project, but are necessary to the effort and therefore must be included to cover all costs. These are sometimes called overhead, and include such goods and services as IT equipment, office supplies, rent and utilities.

Indirect costs are typically applied using a cost factor. This is often a percentage applied to the personnel (salary and benefits) dollars. BEA uses this practice. To develop the indirect cost factor certain non-personnel line items in overhead project (accounting) codes for a complete fiscal year are summed and then divided by the total salary and benefit costs to determine the number of cents per personnel dollar needed to supply employees with the basic goods, services, and technologies (or multiplied by 100 a percent that can be applied to the direct salary and benefit costs). This process is repeated annually to ensure the indirect cost factors are current.

For FY 2004, BEA calculated its overhead rate for indirect cost as 30% of the direct personnel expenses.

Benefit Factor for Estimating the Cost of Reimbursable Agreements

In estimating the costs for any reimbursable agreement BEA estimates the direct costs using the actual salaries and estimated employee hours for each employee needed to complete the tasks specified in the agreement, as well as an estimate for the benefits, and any other direct costs for non-personnel expenses as specified above. A benefits factor, which is the dollar cost of benefits divided by the dollar cost of salaries is used during this exercise. However, when the customer is billed for services the actual benefits that accompany the hours worked by a specific employee are charged. Even though the customer is not charged based on this benefit factor, the factor is verified each year to ensure the cost estimates for services, which are included in the memorandum of understanding, that both parties sign, are as accurate as possible.

The benefit factor is constructed very much like the indirect cost factor. The total benefits for a fiscal year and summed and divided by the sum of the salaries for that year. The result is the number of dollars per salary dollar necessary to pay for employee benefits.

For FY 2004, BEA calculated its benefit rate as 22% of salary dollars.

BEA OVERHEAD ANALYSIS
November 2004

Overhead Expenses:

rent, electricity, admin support, general office expenses" (Furniture, equipment to include IT)

Div	O/C	Seq	Description	FY03	FY04
71	12-2	0010	Worker's Comp	28,036.57	29,835.47
71	12-2	0020	FSA fees	576.00	7,186.00
71	13-1	0010	Unemployment Benefits	482.25	0.00
71	25	0010	ITA HR Svcs	515,000.00	614,585.00
71	25	0020	NOAA Procurement	61,851.00	89,742.00
71	25	0030	NIST Accounting	502,200.00	588,853.00
71	22	0040	WCF	2,279,331.00	2,152,176.61
71	25	0050	A&R	163,782.00	108,324.75
72	21	0020	Metrochecks (IS A BENEFIT see below)	0.00	0.00
72	22	var	Postage	17,504.52	22,104.80
72	23-1	0010	GSA Space Rent	5,184,576.00	4,812,410.00
72	23-2	var	Postage	158,864.39	160,468.04
72	23-2	0040	OT Utilities	47,511.24	47,902.99
72	25	0010	Lessor Above Standard Services	44,000.00	44,000.00
			Space Alterations (annual)	7,000.00	7,000.00
72	25	0020	Security Sys Maintenance	5,015.37	20,723.19
72	25	0050	Labor Services	40,492.14	20,346.19
72	25	0060	Personal Prop Mgmt	2,500.00	2,500.00
72	25	0080	Document Destruction	4,616.51	7,810.25
72	25	0090	Sign Services	62.00	3,000.00
72	25	0100	Copier Maintenance	98,041.92	64,550.75
			Misc. Services	7,889.91	7,500.00
72	25	0140	Audio-Visual/ PA sys / Services	1,350.00	11,331.20
72	25	0180	Library Improvements	88,598.86	55,654.10
72	25	0210	Warehouse Services	43,985.56	64,749.10
72	25	0220	Guard Services	214,877.97	256,723.05
72	25	0250	Safety / Health Services		85,643.18
72	25	0260	NARA Records Mgmt	5,700.00	5,715.73
72	25-3	0030	Ergonomics Training		19,800.00
			Ergonomic Supplies		9,152.00
72	26	0020	Security Supplies	4,083.17	3,948.26
72	26	0030	Newspaper Subscriptions	15,818.62	35,586.95
72	26	0050	Copy Paper		25,000.00
72	26	0060	Copier Support/Supplies	7,566.00	0.00
72	26	0070	Library Critical Subscriptions	128,406.32	138,978.77
72	26	0080	Library Supplies		5,217.31
72	26	0090	Safety / Health / Emergency Supplies	97,800.00	1,736.67
72	26	0100	General Office Support	48,026.00	32,319.26
72	31	0020	Copier Purchases	164,592.26	0.00
72	31	0030	Audio Visual Equipment	30,848.95	13,971.99
72	31	0040	Office Furniture - Executive	98,454.09	36,076.02
72	31	0050	Conference Rm Furniture	14,127.22	3,204.00
72	31	0060	Office Equipment	1,688.63	9,542.39
72	31	0070	File /Book Cabinets	478.80	86,446.12
72	31	0080	Workstations	195,248.00	108,739.80
72	31	0090	Chairs	28,683.15	79,407.50
72	31	0100	Safety / Health Equpment		39,591.19
72	31	0110	Library Equipment		7,727.67
72	31	9006	Security Equipment	4,746.00	199,823.09

81	All	Office of Network and Telecommunications	2,261,401.86	1,516,886.96
82	All	Office of Applications and Development	3,649,847.77	4,060,021.28
82	25	Less Direct Program Area Costs	(2,521,310.70)	(2,865,622.27)
83	All	Office of Customer Support & Security	209,687.40	254,613.07
84	All	Office of Desktop Support	1,078,082.00	852,736.95
85	All	Office of CIO	1,692.26	4,950.29
				n/a
		TOTAL OCIO	4,679,400.59	3,823,586.28
TOTAL NON-PERSONNEL OVERHEAD EXPENSES			15,043,813.01	13,970,690.67

Salaries & Benefits:

Salaries (w/overtime)	32,366,305.00	36,491,356.00
Cash Awards	542,104.61	515,849.00
Lump Sum Leave	113,876.56	200,382.00
Total Salaries	33,022,286.17	37,207,587.00
Benefit: Metrochecks	423,254.00	454,442.65
Benefits	6,160,858.00	8,250,085.00
BENEFITS RATE	18.66%	22.17%
TOTAL PERSONNEL EXPENSES	39,606,398.17	45,912,114.65
OVERHEAD RATE (by percentage)	38%	30%

Attachment B

BEA RIMS Fee Calculation

Fees for BEA's Regional Input-Output Measurement System (RIMS) are formulated using OMB Circular A-25 for guidance.

Bureau of Economic Analysis
RIMS Cost Analysis
FY 2005 Pricing

RIMS PRODUCTION COSTS:

	Hours	Salaries	Hrly Rate	S&Benefits	Hrly Rate	Approx Hrs	Cost	Per Pay Hours
[redacted]	80	3,995.20	49.94	[redacted]	64.87	1816	17,514.90	69.85
	80	1,830.40	22.88		31.56	270	8,521.20	10.38
	80	1,886.40	23.58		26.98	270	7,284.60	10.38
	80	1,466.40	18.33		23.71	270	6,401.70	10.38
	80	1,656.00	20.70		24.65	270	71,386.40	10.38
	400	10,834.40	27.09		34.85	2896	111,108.80	

OVERHEAD RATE 30.0%

MANAGEMENT COSTS:

	Hrs/wk	Hrs/annual	Salary	Hours	S&B	Hours	Rate	Annual
[redacted]	8	208	243.60	8.00	[redacted]	8.00	36.47	7,585.76
	5	130	163.76	8.00		8.00	27.20	3,536.00
	0.5	13	317.44	8.00		8.00	50.69	658.97
		8	5,581.60	80.00		80.00	85.65	685.20
		12	5,248.00	80.00		80.00	72.78	873.36
		24	450.48	8.00		8.00	71.63	1,719.12
							TOTAL	15,058.41

READ RIMS production:		111,108.80
Managment Costs:		15,058.41
November raises (3% for 10 of 12 months)		3,154.18
Subtotal		129,321.39
January increase (3% for 9 of 12 months)		2,909.73
Total S&B		132,231.12
Overhead	rate of: 30.0%	39,669.34
Annual Cost		171,900.46
divided by estimated work of:		625
Total cost per unit:		275.04

NOTE: All salaries and Benefits Data as of PP20.

Bureau of Economic Analysis
RIMS Cost Analysis
FY 2005 Pricing

RIMS PRODUCTION COSTS:

	Hours	Salaries	Hrly Rate	S&Benefits	Hrly Rate	Approx Hrs	Cost	Per Pay Hours
Supervisory Regional Economist	80	3,995.20	49.94	[redacted]	64.87	1816	17,514.90	69.85
Regional Economist	80	1,830.40	22.88	[redacted]	31.56	270	8,521.20	10.38
Regional Economist	80	1,886.40	23.58	[redacted]	26.98	270	7,284.60	10.38
Regional Economist	80	1,466.40	18.33	[redacted]	23.71	270	6,401.70	10.38
Regional Economist	80	1,656.00	20.70	[redacted]	24.65	270	71,386.40	10.38
	400	10,834.40	27.09	[redacted]	34.85	2896	111,108.80	

OVERHEAD RATE 30.0%

MANAGEMENT COSTS:

	Hrs/wk	Hrs/annual	Salary	Hours	S&B	Hours	Rate	Annual
Program Analyst	8	208	243.60	8.00	[redacted]	8.00	36.47	7,585.76
Program Analyst	5	130	153.76	8.00	[redacted]	8.00	27.20	3,536.00
Budget Analyst	0.5	13	317.44	8.00	[redacted]	8.00	50.69	658.97
Associate Director		8	5,581.60	80.00	[redacted]	80.00	85.65	685.20
Division Chief		12	5,248.00	80.00	[redacted]	80.00	72.78	873.36
Senior Manager		24	450.48	8.00	[redacted]	8:00	71.63	1,719.12
							TOTAL	15,058.41

READ RIMS production:		111,108.80
Managment Costs:		15,058.41
November raises (3% for 10 of 12 months)		3,154.18
Subtotal		129,321.39
January increase (3% for 9 of 12 months)		2,909.73
Total S&B		132,231.12
Overhead	rate of: 30.0%	39,669.34
Annual Cost		171,900.46
divided by estimated work of:		625
Total cost per unit:		275.04

NOTE: All salaries and Benefits Data as of PP20.

Attachment C

STAT-USA Pricing Policy
Timeline

- Creation of Pricing Policy Team and Team Leader — 3/11/2005
- Development of Timeline — 3/14-18/2005
- Data Collection, including but not limited to: — 3/21/2005-4/1/2005
  - Guidelines
  - Previous Pricing Policy
  - Previous Analysis Reports
  - STAT-USA Subscription & Revenue Data
  - Other data as needed or required
- Data Analysis, including but not limited to: — 4/5/2005-5/3/2005
  - Number of Accounts
  - Types of Accounts
  - Value of Accounts
  - Revenue & Customer Base
  - Current Pricing Policy
  - Response to Suggested Changes through Previous Study
  - Competitors
  - Short-term and Long-term Recommendations
- Preliminary Pricing Study — 5/9/2005-6/1/2005
  - Review Analysis Report and Recommendations
  - Create 2005 Draft of Pricing Policy
- Circulate Draft for Review and Comment — 6/2/2005-6/14/2005
  - Internally
  - Associate Under Secretary for Management
- Approval of Report — 6/15/2005-7/1/2005
  - Under Secretary for Economic Affairs
- Issuance of Final Report — 7/11/2005